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From: Jake Brukman <jake@coinfund.io>
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CC: coreteam@coinfund.io <coreteam@coinfund.io>
Sent: 4/3/2017 7:39:42 PM
Subject: Additional Research Deliverables

Hi all,

Please find below the additional research deliverables for today.

- Consolidated Questions Document
Peter's questions and additional editing on prior questions/feedback.
- Kik Token Roadmap (Whitepaper + Token Sale)
Rough roadmap specification with basic initial estimates from certain providers.
- Kik Whitepaper Table of Contents
As per Ted's request, a rough outline of the whitepaper table of contents.

CoinFund team will be available today if you would like to go over the materials in detail. Please let us know if you'd like to connect, and as always, please send us feedback and questions.

Best,

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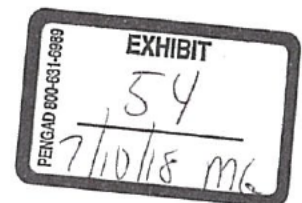
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Additional Research

Kik Interactive, Inc.
April 3rd, 2017

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Token Whitepaper ToC

The following link contains a rough draft for the token whitepaper table of contents based on a non-consortium model.

[Kik Interactive Whitepaper ToC](#)

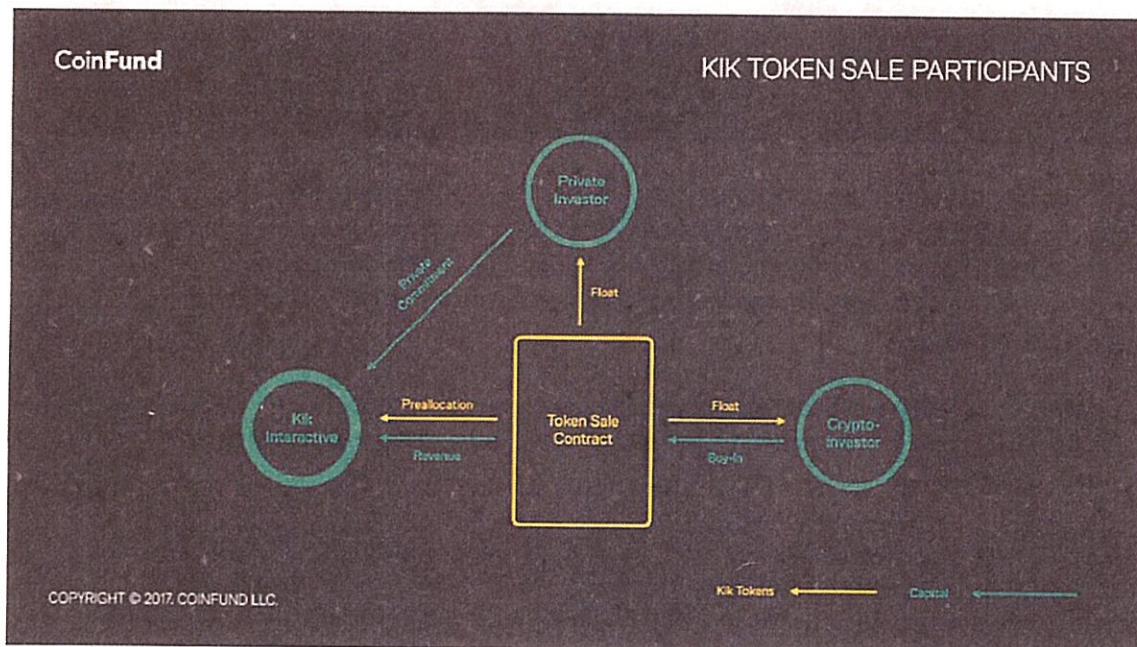
3/23 Questions from Peter

What is the structure of the economy and mapping of all stakeholders, both primary (market participants) and secondary (regulatory bodies, competitors, potential partners etc.).

For economic structure details see section "Kik Token Economics" in the [Kik Token Research document](#).

Token Sale Participants

The following diagram describes the participants in the Kik Token Sale.



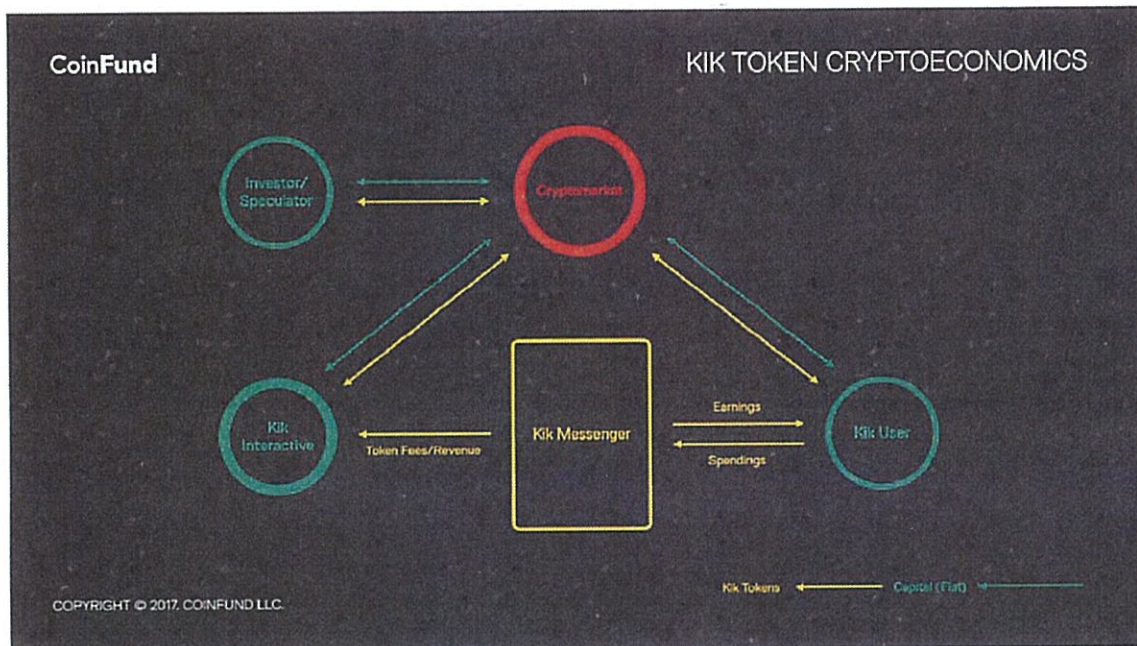
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"Cryptoinvestors" include regular participants of token sales, as well as Kik users who are participating in the sale by way of cryptocurrency. Private investors include Kik's private equity investors (e.g. USV), as well as "institutional cryptoinvestors" such as VCs looking to purchase cryptoasset exposure (e.g. BlueYard¹), or any third party investor desirable to Kik.

Kik Token Cryptoeconomics Diagram

The following diagram describes the participants in the cryptoeconomy of Kik Tokens.



Kik Users participate in the in-app token economy within the Kik Messenger by earning and spending KT in exchange for goods and services. "Kik Users" may also include Partners such as Kik Developers, Brands, and Advertisers who can make use of Kik Tokens within the application for various purposes (promotions for users, in-game currency, purchase of advertising real estate, etc.)

Users will be able to redeem KT for Bitcoin or fiat value on cryptocurrency exchanges. Similarly, Kik Interactive as well as investors and cryptomarket speculators obtain KT liquidity on cryptocurrency exchanges.

Third parties are free to implement integration with KT, as it is a public smart contract. However, such participants do not (by the current design) have access to the preallocated supply of KT. They are also subject to all the risk factors inherent in KT as a decentralized cryptocurrency.

¹ <http://blueyard.com/>

Regulatory Bodies

Precise regulatory analysis must be completed in a thorough compliance review by legal professionals. The following should not be construed as legal advice and is provided for informational purposes only.

It is possible that the following regulators come into play:

1. FinCEN/Department of Treasury

Not clear without professional advice if Kik Tokens would fall under this regulatory regime. However, the key differentiator here is whether or not the company providing tokens is also enabling the exchange between tokens and fiat currency; the ideal scenario would be to have cryptocurrency exchanges, which already comply with this regulatory regime, take on the regulatory responsibility of the fiat exchange.

The following considerations come into play here:

- a. Pedigree user information (KYC/AML: Name, Address, Zip, Email, Identifying Documents).
- b. Suspicious transaction reporting.
- c. Registration as a money services business.²
- d. KYC/AML may be the requirement for the crowdsale, globally.

2. SEC

- a. The SEC has yet given no guidance that any particular token offering is a security, and this guidance is not expected in the near future.
- b. The SEC would potentially apply the Howey Test³ to determine if the sale of such tokens would constitute an "investment contract".
- c. Some companies, in an effort to defensively avoid this classification altogether, have structured their offering outside of the U.S. and block U.S. users. Other companies have considered other strategies to avoid this risk including: (i) giving

² See Ripple action.

³ <http://consumer.findlaw.com/securities-law/what-is-the-howey-test.html>

away currency for free to trade speculatively on markets (Gems, Stellar); (ii) having the currency be purely mined or generated through work (ByteBall, Steemit); (iii) making sure that any returns from the currency are generated through the work of the users (Augur REP); (iv) ensured that the currency carries a legitimate utility use case (for example, Ether is a token used to operate the Ethereum global computer).

3. CFTC

- a. The CFTC has given guidance that Bitcoin (and other cryptocurrencies) are commodities.
- b. The CFTC would potentially have regulatory oversight over derivatives of commodities, should Kik ever engage in derivative transactions of Kik Tokens.

4. IRS

- a. The IRS has given guidance that Bitcoin (and other cryptocurrencies) are classified as property for reporting purposes.
- b. Trading and spending of cryptocurrencies is reported as long-term and short-term capital gains, similar to stock trading, on Form 8949.
- c. Within certain limits, cryptocurrency can be provided as gifts and receivers get a \$0 cost basis for these tokens. Receivers are responsible to pay taxes on further appreciation of those tokens.
- d. When an entity provides tokens as compensation to users, they are expected to file 1099 forms with the IRS. This also implies KYC for users who will be able to take tokens out of the Messenger app and exchange them for fiat on markets.

Consortium Model

The question of a consortium model for a "messenger currency" and how launch partners take part in the economy requires some additional thinking. The following presents a possible framework for attacking this problem:

- a. Kik pledges to adopt the consortium currency indefinitely and offers to share a percent of token preallocation with selected Partners.
- b. Kik and Partners ("Consortium Members") share in the technology development costs, creating APIs that Members can use to give their users access to the Kik Token

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cryptoeconomy. Or Kik uses a portion of the crowdsale proceeds to fund the start of the consortium and roadmap in exchange for retaining a larger proportion of the token supply.

- c. All Members participate in the cryptoeconomy causing a sharper increase in demand and, consequently, increase the value of the total preallocation. (One could model this to arrive at optimal preallocation split.) This could be based on factors such when the Partner joins the consortium (more for early adopters) and KPI's such as how many users or how much activity is contributed to the ecosystem (Registered Users, MAUs, DAUs).
- d. It is an open question whether the token economy actually allows Members to extract benefit from a closer integration with each other's system. It is yet to be determined what benefit this may have for users and the cross-platform experience, other than an interoperable currency.

How do we structure the company i.e. separate entity and Kik is a partner, Kik is management co. etc.

1. Where does it make sense to set up our entity?

Many decentralized projects have opted to set up entities in Zug, Switzerland using the law firm MME, and this jurisdiction has made a name for itself as "Crypto Valley".⁴ The benefit of this structure is favorable tax consequences on token sale revenue and a flexible jurisdiction for cryptocurrency issues.

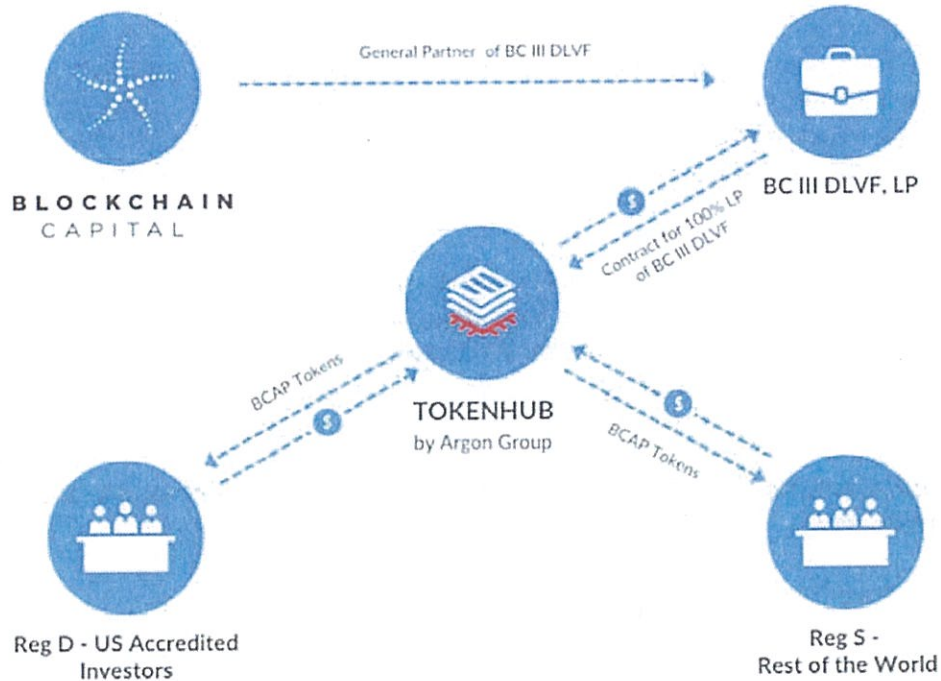
Setting up offshore and offering products to U.S. investors does not necessarily preclude risk from US regulatory agencies, particularly around securities regulation. For this reason, some companies have opted to defensively block U.S. investors from participation.

At the same time, we are starting to see examples of the first tokenized securities being offered to U.S. accredited investors and non-accredited investors globally. One such example is Blockchain Capital who seeks to raise a \$50M tokenized venture capital fund. Details are [here](https://blockchaincapital.tokenhub.com/)⁵ and the prospectus will be available April 3rd. Note, once the tokens are issued the issuer does not control them and may not be responsible for where they are traded or who holds them unless they are issuing dividends. However, this is an active area of legal research.

⁴ <http://cryptovalleyzug.net/>

⁵ <https://blockchaincapital.tokenhub.com/>

Fund Structure



2. Would make sense to have this as a separate company and Kik becomes something that plugs into this block chain. This would provide the following benefits:
 - a. Limited liability for Kik
 - b. Blockchain can run independent of Kik if growth trajectories are inverse of each other
 - c. Decentralized network for consortium
 - d. A separate entity can AML/KYC users without providing their details to the messaging consortium, but still ensuring full compliance
 - e. Users utilizing the blockchain would have to verify identity; a way for us to authenticate users through voluntary measures

Yes, there are various positive reasons (isolated liability, tax consequences, consortium formation, community positioning) to structure in a separate entity, which is possibly offshore, possibly non-profit and possibly not owned by or a subsidiary of Kik Interactive.

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How we structure a sale from a tax perspective?

High-level experience is listed below. The following should not be construed as accounting or tax advice and is provided for informational purposes only.

1. What is the standard accounting practice?

In the US, the IRS classifies cryptocurrency as property, resulting in taxable income gains on its sale, trade (including from one cryptocurrency to another), and receipt as compensation using a reasonable valuation of the currency against a reasonable market for it at the time of the transaction (typically, a cryptocurrency exchange price).

Cryptocurrency today has no de minimis exemption in the US to actually be used as currency. For instance, the purchase of a cup of coffee with Bitcoin technically requires a user to report this liquidation of Bitcoin to the IRS. In practice, cryptocurrency gains are evidently under-reported by users⁶ and are likely to receive more scrutiny from the IRS in the coming months and years.

Other jurisdictions may vary.

If Kik Tokens were issued by an entity domiciled in the US, this revenue would likely be regarded as income.

2. Revenue item, capital item, intangible asset?

As above, if a company creates a cryptocurrency (a product and property) and then sells that cryptocurrency to others, the proceeds from the sale are regarded as income.

Cryptocurrency is not a capital asset or intangible asset, based on preliminary accounting review.

3. How do we get it on our balance sheet?

We would need professional accounting advice here, especially in the context of a foreign entity, as the question of repatriating revenue to the United States is a complex case-by-case issue.

4. Is the reserve held as an intangible?

No, it likely is not an intangible. The treatment depends on the outcome of the tax

⁶ See: <https://cointelegraph.com/news/irs-coinbase-debacle-just-800-users-per-year-declare-bitcoin-earnings>

findings. In broad strokes:

- a. **Single Entity Model.** If Kik Interactive, Inc. creates a cryptocurrency product (i.e. property) and sells it, the proceeds are most likely income. Kik does not generate income on a preallocation of product it has created until that product is sold to third parties (so, the preallocation carries no tax consequences).
- b. **Dual Entity Model.** If Kik Interactive, Inc. purchases a cryptocurrency from a third party entity (e.g. Kik Token Foundation, Inc.), then it can have an agreement in place to purchase it at a cheap cost basis and defer tax consequences until liquidation (analogous to 83(b) exemption situations in equity purchases). It is important to do this agreement early and before Kik Tokens are trading on markets.

5. Risks in giving users coins – would that be treated as income to them, whereby we then have to report that?

- a. If a user receives a significant amount of promotional cryptocurrency, and especially if they earn cryptocurrency for goods and services, this is equivalent to receiving income in the form of property. This generally means that the user must report the income to the IRS, and to set the cost basis of that income as \$0.⁷
- b. Kik may then have an obligation to file 1099-MISC forms in connection to distributing compensation. It is our preliminary understanding that the threshold for 1099 requirements is payments to any one person in a calendar year greater than \$600 in aggregate.

6. Are we liable to provide transaction data on users in the event they are audited?

A service provider is generally not required to facilitate tax reporting for users, other than the IRS requirements for reporting income paid to users. However, facilitating tax reporting would certainly be a desirable feature from a user perspective.

Generally this would include (i) a report of all the earned currency received by the user on the platform and its fair market value (in USD) at the time of the transaction; (ii) potentially, a report of all spending events for a user's account, which would be considered liquidations of property.

Typically this is done on a FIFO⁸ basis and reported by users on Form 8949.

⁷ Please see <https://www.irs.gov/pub/irs-drop/n-14-21.pdf>.

⁸ <https://www.fool.com/knowledge-center/how-to-sell-stock-with-fifo-or-lifo.aspx>

What are the variables in security that differentiate from traditional payment solutions security?

1. Will we need a security audit?

Absolutely. This security audit will chiefly concern the integrity of the cryptocurrency and token sale smart contracts. It will also concern Kik company custody of digital assets, key management, wallets, internal transaction accounting, and points of integration with the decentralized application running on Ethereum.

Other thoughts:

- a. **Increased emphasis on security.** Decentralized security is more complex because there is typically no recourse to security events.
- b. **Multisignature wallets** A stringent security process around private key management may involve multisignature. This structure should be created by a security consulting firm familiar with the issues.
- c. **Providers.** At least one provider has token sale proceeds custody and security as a service. We are also familiar with several security consultants in the space who deal particularly with these types of issues.
- d. **Insurance.** Cryptocurrency exchanges have certain kinds of insurance (for example, Coinbase is insured against losses in their hot wallets). Kik may wish to attempt to insure their proceeds against technological failures, hacks, or other types of loss events.
- e. **Liquidation.** Kik may consider various liquidation strategies over a period to time to convert crowdsale proceeds to fiat. OTC desks offer block trade capabilities.
- f. **Off-chain Transactions.** In this architecture, in-app transactions between users are managed centrally by Kik and users would only receive on-chain tokens when they withdraw from the Kik ecosystem. Similar to a centralized exchange, this may give Kik more control over situations where security is compromised in-app before tokens are withdrawn, committed to the blockchain and transactions become immutable.

We need to determine the requirements we need for fraud detection. Credit card companies monitor user behaviour in transactions.

1. How does this work in the context of crypto?

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- a. In general, it is unclear what constitutes fraud in a decentralized context as compared to traditional credit card fraud.
 - i. If fraud is defined as stolen or compromised tokens: This is covered by the security of the blockchain system, and given a functioning secure system, this cannot happen. Secondly, tokens are generally compromised through user error (user leaks his key), insecure passwords, or compromised keys (such as cell phone attacks, where the user's phone holds keys).

That said, security issues do arise and Kik may be held responsible for poor security features, unpatched vulnerabilities, etc.
 - ii. If fraud is defined as users selling or purchasing fraudulent or illegal goods and services on the platform: It is the responsibility of Kik to make sure that only legal goods and services are available on the platform. This is already a quality/compliance problem on Kik's radar, such as with moderation and trading of illegal images.
 - iii. If fraud is defined as extortion of tokens: The user's ability to report other users and moderation features need to be in place on the centralized platforms.
- b. Generally, there are three contexts for financial features relating to regulation and fraud management:
 - i. **Tokens Only.** No cash purchases of tokens are done in-app, and tokens are only purchased on third party platforms (cryptocurrency exchanges).
 - 1. **Pros:** relieves Kik from some regulatory obligations, including potentially fraud detection requirements.
 - 2. **Cons:** increased user friction to purchase/sell tokens.
 - ii. **In-app Purchase.** Tokens can be purchased directly from Kik Messenger.
 - 1. **Pros:** less friction, more monetization possibilities.
 - 2. **Cons:** increased regulatory obligations, frictions with iOS eligibility.

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- iii. **Off-chain accounting.** Token accounting for user to user transactions are managed off-chain by Kik.
 - a. **Pros:** fraud and theft can be reversed, or otherwise resolved, in the internal accounting system. (Funds sit in one wallet controlled by Kik and user accounts are reconciled internally until the user withdraws funds. When withdrawn, tokens transactions are committed to the blockchain and the user can move the tokens around outside of the Kik ecosystem.)
 - b. **Cons:** in-app transactions are not decentralized, immutable, or publicly auditable by default

2. Are there ways for us to outsource fraud detection or do we need to build internally?

Fraud management becomes a question of (a) initial and ongoing security, (b) monitoring due to regulatory requirements, such as FinCEN, and (c) monitoring due to moderation and other internal initiatives.

- a. Security review and support is easily outsourced.
- b. Monitoring due to standard regulatory requirements may be outsourced, but requires further research on providers.
- c. Internal monitoring is most likely developed in-house.

We need to make sure we are fully compliant.

1. COPPA

COPPA concerns younger users, and most likely the currency features will be for 18+ users and will not impact younger users. At the same time, it may be possible to provide some token integration for younger users as long as they keep to the token domain in-app and do not withdraw or exchange tokens for fiat value. The final signoff on this should be done by legal professionals at compliance review time.

2. KYC, AML (Anti Money Laundering), SEC

See answers to first question in this document.

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3. Apple

In-app trading of cryptocurrency with respect to Apple is generally high risk, with Apple known to have removed (and then reinstated) Bitcoin trading apps in the App Store.⁹ Today, you can buy Bitcoin and Ether on iOS, for example, using Coinbase¹⁰ or Coinjar¹¹. However, purchases and sales of new tokens will be subject to case by case approval from Apple, and carries risks of rejection from the App Store as well as other regulatory concern (see above).

Evaluate options for the wallet; does it make sense to build a wallet?

There are several scenarios for wallets that support Kik Tokens:

1. **Sale Portal Wallet.** Potentially, as a feature, the wallet that an investor holds as a participant in the token sale through a portal website, and which is used to distribute the initial supply of Kik Tokens after the sale.
2. **In-App Wallet.** Kik Messenger will have a wallet which holds Kik Tokens as an application feature. (Required.)
3. **General Wallets with Token Support.** Generally available wallets which support the holding of Kik Tokens. In the context of Ethereum, this could be Coinbase (in the future), Jaxx Wallet, Ethereum Wallet, Ledger hardware wallets, MyEtherWallet, etc.

Of those (1) is desirable and may be outsourced or part of a service offering, (2) is required and done in-house, and (3) requires no special integration unless desired. Coinbase may be used as a wallet partner, assuming they are willing to offer support for Kik Tokens. While Coinbase seems to be roadmapping to offer support for a wider variety of Ethereum and blockchain based tokens, presently they only support Bitcoin and Ethereum wallets.

Understand the technical relationships between the following, and what type of development effort is it to connect them, and how are they managed:

1. **Messenger client**
2. **Messenger server**
3. **Wallet**
4. **Underlying Blockchain**
5. **Platform for demand partners**

Overall, this item requires a thorough architecture specification. (See the Roadmap.)

⁹ <http://www.theverge.com/2014/6/16/5773680/apple-allows-bitcoin-apps-coin-pocket-on-ios>

¹⁰ <https://itunes.apple.com/us/app/coinbase-bitcoin-ethereum-wallet/id886427730?mt=8>

¹¹ <https://www.coinjar.com/>

At a high-level, one MVP system is:

1. Smart contracts for Kik Tokens and issuance structure secured and deployed on Ethereum.
 - a. This can be done in-house, outsourced to experts, or a combination.
 - b. This will require external security review.
 - c. This is a distinct and separate system from Messenger.
2. A portal website where investors can remit funds to the token sale.¹²
 - a. May be done in-house, as it is basic web development plus basic Ethereum integration.
 - b. May be done as a turnkey solution which is soon to be on the market.
 - c. This is a separate system from Messenger.
3. The Messenger server interacts with the Ethereum network to settle transactions. This requires paying Ether to the network, so points to cover here:
 - a. **Off-chain accounting.** Kik may want to do internal accounting on all in-app transactions to optimize costs and network throughput. This would require a backend system in-house and is highly desirable.
 - b. **Transaction fees.** Kik may want to assess transaction fees (paid in KT) to cover the costs of settlement with the network. This is an in-house technology architecture decision.
4. Various in-app integrations (wallet, remittance, tipping, in-game currency, etc.)
 - a. This is all in-house, with possible consultations from experts on specific points of integration as the need arises.
 - b. This is the Messenger client and server work.
5. A platform for partners can be a separate system with Messenger integration, as well as KT integration. Product details are TBD.

¹² See one example of such as site at <https://matchpool.co/crowdfund-live/> or <https://www.wetrust.io/>.

How much effort is it to manage this in perpetuity?

1. Is this outsourced or do we build?

See previous question. It is most likely a combination of a significant development effort in-house coupled with outsourcing specialized work or expertise in smart contracts, security, and integration advice.

2. Ongoing efforts.

- a. **General ongoing efforts.** Ongoing efforts will be mostly around ongoing security issues, monitoring, and (potentially) compliance.
- b. **Asset movements.** There will be efforts with respect to liquidations of assets and with respect to revenue generation, and associated accounting.
- c. **Kik's SDLC.** Kik's software development lifecycle will continue to add features and integrations into Messenger and will require development time and maintenance.
- d. **Accounting and tax efforts.** Yearly, there will be accounting and tax obligations, as well as possible reporting for users for tax purposes. Other regulatory reporting or filing obligations may be required.
- e. **Emergency Response.** Emergency response should be available to address security events, moderation events, market events, and regulatory events.

What are the criteria that one would use to assess which chain to build on and how does this affect the future of the currency?

1. Full assessment would include a review of functionality, projected transaction volume, and non-financial features. Major considerations would be:
 - a. Systemic risk of the blockchain failing.
 - b. Systemic risk of the blockchain failing to scale.
 - c. Security profile of a particular blockchain (cryptographic security, network size, consensus algorithm, team commitment and expertise in security).
 - d. Risk of committing to a smart contract stack that becomes obsolete.

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- e. Network effect of the ecosystem (users, developers, infrastructure, exchange integration and liquidity).
 - f. Interoperability with other blockchain stacks (such as in the virtual machine of the smart contract language, or in terms of interoperability with financial infrastructure.)
2. Ethereum is currently the only platform that can implement fast transaction settlement for third party tokens and has a large network effect in terms of users, developers, and infrastructure. The Ethereum Virtual Machine (EVM) is poised to be compatible with at least 5 other blockchain networks, which alleviate some systemic risks of the Ethereum network as a whole ¹²
3. Ethereum Enterprise due 2018Q1, which will offer permissioned blockchain solutions compatible with Ethereum smart contracts and will come with membership in a consortium of institutions and a compelling Microsoft Azure based platform. However, EE is not seen as a decentralized blockchain solution by the community and any development roadmap for integration with the public chain has not yet been specified.

3/14 Q&A

Crypto Survey Feedback

Some concerns around understanding how \$1-5k investments will be able to provide meaningful funding levels and strong investors over time.

The survey concluded with interest in a messaging platform sale of \$1-5K at 27.8% of respondents and \$1-1K is 40.4%. Also, see "Market Research" section titled "Sample Crowdsale Distributions". The number that validates average participant investment is from the chart with all relevant crowdsales data which shows on average 2,190 participants and a \$6,399 check size.

Do you guys have any other insights into the investor groups that make up the category of \$5k to \$50k. From the survey the bulk look to have a tech, eng, sciences background and general finance services next largest. Trying to understand if you guys have more details on what types of investors these people are from your previous work or research.

This category is reserved for serious cryptoinvestors globally as well as small VC funds and family offices that are pushing into the space (with larger ones trying to formulate a thesis on the

¹³ RSK, DFINITY, Qtum, Ethereum Enterprise, Ethereum Classic.

opportunity and set up structures to allow for token based investments). As you will note from the survey, there is a shocking number of participants (34.5%) that hold >75% of their investments in cryptotokens. The above \$50K investments are generally from the profiles mentioned above or people that have made a lot of money in Bitcoin or Ethereum price appreciation and are using that to diversify and build a portfolio of investments in the blockchain ecosystem.

Also interested in understanding the elasticity of investor interest as other factors such as vesting come into play. Some concern over the “pump and dump” investors vs. more longer term. We need to be really thoughtful on how we set up vesting, especially on our side. Investors will want to know that we won’t flood the market with coins after the ICO. We can use the blockchain to setup and guarantee the vesting rules.

Absolutely, we can structure vesting into the smart contracts so that the market is comfortable with the long term impact of the Kik held preallocation. Please see the “Token Sale Market Research” section labeled “Performance Over Time” in the final deliverable for more detailed information.

Related considerations:

1. **Speculation.** Speculative investors are a fact of life of unregulated cryptomarkets and can have both positive (e.g. adding liquidity) and negative (e.g. price shocks) impacts on markets. One of our goals is to advise you on structure and product in such a way as to minimize adverse effects of speculators and amplify positive effects of users.
2. **KYC at sale time.** Most sales to date have not required KYC at sale time, and this has driven demand for sales among financial privacy minded individuals. There is not enough data on KYC’d token sales on the market today, but it could have adverse effects on performance.¹⁴ CoinFund has some very preliminary market feedback on KYC-mandatory sales we can discuss.

What is remaining to answer through the research and other market data:

- **Do we feel the story as it stands within the ecosystem of Kik has the ability to drive investment and also keep investors for the longer-term hold?**

The best way to keep investors is to bring them returns. This is achieved through creating real value and utility through in-app cryptocurrency, in our case here. Some other avenues for story-telling purposes:

¹⁴ Jason Granger and Charlie Shrem’s IntelliSys offering (blockchain-based PE firm) was a fully KYC’d sale, but the sale failed for unrelated, technological reasons.

1. **Creating real value in digital communities.** Digital communities, like any other communities, need to be able to use currency as a means of communicating. Sending tips, getting paid for goods and services, and generating digital value through creation and curation are some of the compelling reasons to have community currencies in a digital context.
2. **Replacing ad monetization models.** Brendan Eich¹⁵ and the folks at Brave Browser are thinking deeply about alternative models of content monetization through the Basic Attention Token.¹⁶ Medium has recently started moving in the direction of compensating writers. Steemit, Akasha, and other platforms currently are working through decentralized social media models which directly compensate creators and curators. This is the right time to experiment with alternative monetization models using cryptocurrencies.
3. **Decentralization is the goal not the method.** Few platforms are currently operated without some form of semi-centralized governance -- but it is the long term vision. Kik is the backbone and centralized platform to help drive adoption and on board millions of users in order to jumpstart this marketplace. This is actually a positive and de-risks acquiring a large user base in the decentralized context without a marketing budget and sufficient resources (Kik has already made the investment and has the users). In fact most planned consumer oriented Dapps (Decentralized Applications) include a proprietary User Interface. See Matchpool for example, they are using a sleek proprietary iOS interface as the front end to power their backend blockchain based platform. Lastly, for Kik a monetization model may not even include toll-taking on transactions or selling user data, but simply the value of the currency plus any services offered by Kik on the supply side that users pay for. So while Kik is centralized the goal is not to extract rent or friction from its users interactions. This message will resonate well with the market. The more important question is can Kik get the crypto community comfortable that they will integrate with the currency for the long haul (and not abandon it).
4. **Blockchain pioneer traditional company.** The message is unique and will be a marketing driver of community ownership and value capture, unlocking a whole new user base or converting users from platforms who may seek to exploit their value.
5. **Blockchain space/token sale validation.** If general technology companies are venturing into blockchain fundraising, this is a major validation for this space.

¹⁵ Creator of JavaScript and founder of Mozilla Foundation.

¹⁶ <http://basicattentiontoken.org>

6. **Anti-Facebook mentality.** Encourages a broader community of developers, creators and users to come together and build something better than Facebook, and share in the value of it.
- **How much we think we can raise in an ICO?**
 1. See raise model in final deliverables, the results are grounded in statistics of market findings. Impact of whether or not all investors need to be KYC'd is undetermined at this stage.
 2. Our preliminary middle-column estimate was approximately \$37M from cryptoinvestors, presale partners, and converted Kik Points users.
 - **How confident we feel about the above estimate?**
 - If the right story and structure is conveyed a successful crowdsale is very achievable (with flexibility to exceed the target goals). In the recommended raise structure of the final deliverable, we expressed interest in including a minimum so if a certain threshold is not met, the funds are refunded and the sale is cancelled. Additionally, we plan to layer in discounts to help hit the hurdle rate that meets Kik's needs of moving forward. A few of the risks include whether or not we can solicit interest from existing Kik users to drive further demand and what compliance requirements are necessary for participants.
 - The marketing, story, and adherence to best practices established within the space are going to be key points in facing the cryptoinvestor market.

Crypto Model Feedback

Putting together a consortium will take a fair amount of time. If we were to pursue a consortium model, how real does the actual consortium need to be at white paper time?

You don't have to start a consortium with partners already in place, it can be a vision statement. And if desired, implemented down the road using a % of Kik's holdback to attract partners.

The crowdfunding model is based somewhat on the investor also being engaged with the ecosystem at the onset. There is likely a mismatch here between the investors and our user base. Do you see this as an issue?

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Not entirely true; most crowdfunding events are actually the start of an investor's relationship with the product/project. Most people use their ownership interest to begin engaging with a new economy or ecosystem. Nearly all the blockchain based financings have been for projects "on the come" and at whitepaper stage so it's a way to kickstart network effects during the development phase. For Kik, if the economic incentive to participate is clear, the opportunity for non-users (such as cryptoinvestors) to invest is separate and distinct. However, we seek to open up the opportunity to regular users if compliance permits. We expect this opportunity to also excite existing users.

Token Demand Drivers

User may purchase applications or third party features

The terminology here is confusing for us. We don't have applications inside of Kik. Having some challenges with trying to think about what types of 3rd party features would be bought aside from those offered inside of bots. Can you please clarify what you're referring to?

Terminology above is confusing, apologies. We can think about specific use cases, such as the following:

1. A user can use KT to purchase exclusive digital content (exclusive smileys, stickers, memes).
2. A user can use KT to purchase access to a premium bot, to purchase access to premium bot features.
3. A user can use KT as in-game currency within a bot application.

Monetization

1. Market value growth of pre-allocation is most interesting for Kik.
2. Token sale revenue is also important to the extent that it needs to be above a certain threshold to be worthwhile. We also note the type of investor is important in this context (i.e., A high number of small investors that invest and sell on a return of say 20% for \$20 mil is not necessarily the best scenario. A mix where say 75% were investors that understood the full opportunity and would hold might be better for us even at an initially

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lesser amount)

3. Transaction fees: we believe we need to make a decision on this at the outset. A big part of crypto is "removing the middleman" so we need to be clear and upfront about our intentions

We view this as a pick 2 of 3 question but your thoughts are correct. Depending on the cryptoeconomic outcome, 1 and 2 are likely better long term monetization models. Regarding 2, investor churn is natural and there will always be people who exit early as well as others who missed out on the opportunity or wanted to wait and see metrics before participating. Public investors may not be sophisticated and could want liquidity to cover an expense for example. A crowdfunding has a cost basis (valuation floor where people bought in) which actually helps naturally mitigate volatility. On one hand, participants are reticent to sell if the price is below the initial offer price and on the other hand they tend to take profits when the performance exceeds their expectations. Additionally, the tokens will have to spread amongst the user base so buying and selling is natural. We will explore additional plans to limit volatility if desired.

Other considerations:

1. Transaction fees may be required to cover the costs of interacting with the Ethereum network at the point where users are transferring tokens outside of the system.

Token Sale Structure

What would be good here is to see example of what has happened in the past on both minority floats and majority floats? What the initial offering was and what the results were with the value within 3, 6 and 12 months. This would incorporate the other inputs here both with respect to vesting and token sales strategies employed.

All but two relevant token sales have positive performance in the long term. The two outliers, Synereo and LBRY suffered from a management upheaval and poorly structured offerings. Additionally, Synereo floated only 9% of total supply and LBRY was set up as a mining only currency with 12% of total supply currently outstanding. As a result, LBRY suffers from both high inflation and a negative bias amongst investors who were burned by purchasing with a high initial cost basis when miners started selling.

Vesting is a relatively new concept and is just starting to be implemented in the smart contracts of projects seeking to raise funds. Therefore, its impact is undetermined at this time. Nonetheless, for marketing and execution it is viewed favorably amongst investors.

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Kik Team Notes on Demand/Supply Drivers

Monetization

Core components:

- Token sale revenue (ICO amount and types of investors will be important)
- Market value growth of preallocation
- Transaction fees (potentially - need to continue to discuss)

Other avenues:

1. Supply side services (things that Kik develops or sells)
2. Block sales of KT to Partners (Developers, Advertisers, etc.)

Questions/Needs:

- What infrastructure pieces will we need to operate this?
- What partners would be recommended for providing each of the infrastructure pieces (i.e., wallets and exchanges in particular)
- What are costs associated with implementing and maintaining the infrastructure and services around this

We cover this pretty thoroughly in answers to Peter's questions.

Demand Drivers

Notes:

- Things that increase demand for the coin
- 2 audiences to consider - User and Creator/Developer

Content in Messenger (enable key formats from 3rd party content creators, enable promoted content slot for key formats)

Users can spend coins to buy content to use in messaging:

- Stickers - no brainer given consumer demand and established creator supply on other messaging platforms

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- Chat themes - since we are creating greater personalization around chat background and/or bubbles in the product, this seems like a low friction product feature to open up to 3rd party content creators (i.e., similar concept to tumblr themes)

Content creators can spend coins to buy promotion of content that is used in messaging:

- Promoted content slots
 - Over time, it's more likely for a content creator to use proceeds from their content sales to fund this vs. buying coins
 - Brands who are also content creators are more likely to buy coins to fund promotion of their content

Questions/Needs:

- Themed emojis - will we continue this path in the product? Unclear if this an area that would be compelling for 3rd party content creators?
- GIFs, Memes - will users be willing to pay for GIFs, Memes? Unclear if this is an area that would be compelling for 3rd party content creators? Most seem to be aggregated by large 3rd party partners and offered to end-users for free by the platform - can Kik do this more efficiently/effectively than a Giphy when it comes to content creators?
- Are we going to introduce user gen content tools in the product (i.e., sticker maker or GIF maker)? If so, it will require additional resources on our end to safeguard against safety and copyright infringement
- User and marketplace research needed

Bots (full platform integration around coins)

Users can spend coins to buy **digital (starting point)** goods, features and services inside of bots. Categories that are super exciting for our users:

- Gaming bots
- Influencer bots

Developers can issue coins as rewards

:

- Drive desired user actions/behaviors

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- It's more likely for a developer to use in-bot **digital** goods, features and services to reward users vs. coins
- Brands who are also developers may purchase coins to reward users (loyalty schemes)

Developers can spend coins buy promotion of bots on the Kik platform:

- Promoted bot slot
 - Over time, it's more likely for a developer to use proceeds from their in-bot sales to fund this vs. buying coins
 - Brands who are also developers may purchase coins to promote their bots

Supply Drivers

Initial coin sale

- Finite supply created and allocated amongst:
 - Crypto investors
 - Employees/investors
 - Pool for future fundraising
 - Pool for furthering Kik's community (i.e., incl. user rewards, etc.)

Kik issues coins to reward users

- Community safety and moderation
 - Public Group admins/moderators
 - Successful community safety reports
- Participation in Kik research
 - Ad hoc survey
 - Ad hoc 1:1 chat discussion
 - Kik panels: beta testers, consumer insights, usability
- Participation in Kik marketing programs
 - Kik VIP (internal influencer program)
- Marketing initiatives/campaigns/promotions (from time to time rewarding certain engagement/behaviors or loyalty)

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Questions/Needs:

- Will Kik facilitate automatic buy-backs or in-app redemption? (necessary for replenishing Kik's community pool) - a fee can be implemented for these types of transactions

We need to better understand Kik's thought process on the rationale behind requirement for buy-backs or in-app redemption. In general, as discussed throughout the document if we can outsource the exchanging of funds to established third party exchangers, compliance risks and requirements may be less onerous.

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PRIVATE & CONFIDENTIAL**Kik Interactive Whitepaper****DRAFT****SAMPLE TABLE OF CONTENTS [Non-Consortium]**

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Disclaimer

Abstract

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Appendix A: Cryptoeconomic Diagrams

Appendix B: TODO

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